

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

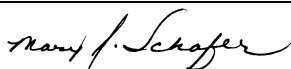
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

Monroe County Road Commission
(a component unit of Monroe County)

Financial Report
with Supplemental Information
December 31, 2007

Monroe County Road Commission

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Independent Auditor's Report

To the Board of Road Commissioners
Monroe County Road Commission

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining aggregate fund information of Monroe County Road Commission (a component unit of Monroe County) as of and for the year ended December 31, 2007, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the remaining aggregate fund information of Monroe County Road Commission at December 31, 2007 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplemental information are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the statements that collectively comprise the Road Commission's basic financial statements. The other supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Monroe County Road Commission. This information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

April 7, 2008

Monroe County Road Commission

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of Monroe County Road Commission (the "Road Commission") provide an overview of the Road Commission's financial activities for the fiscal year ended December 31, 2007. Please read this in conjunction with the financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The governmental fund balance sheet/statement of net assets presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based column presents a short-term view of the Road Commission; they tell us how much is available for future spending. The total full accrual column is intended to present a longer-term view, and tells us whether taxpayers have funded the full cost of providing services to date.

The statement of governmental fund revenue, expenditures, and changes in fund balance/statement of activities also presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based column tells us how the taxpayers' money was spent during the year, while the total full accrual column tells us the cost of providing services this year, as well as whether taxpayers paid the full cost of providing services this year.

Supplemental information is also provided for additional information purposes.

Financial Analysis

The net assets of the Road Commission are summarized for the purpose of determining the overall fiscal position. As shown on the net asset chart below, the Road Commission's assets exceeded liabilities by \$102,577,426 at the end of the fiscal year. When comparing this fiscal year to the previous year, net assets have increased by \$2,920,890. This is mostly attributed to the addition of infrastructure assets.

The Road Commission's revenue for the year ended December 31, 2007 increased by approximately \$2.2 million from the previous year. The increase is primarily a result of increased state trunkline maintenance funds and increased participation from federal and state sources during the year ended December 31, 2007.

The Road Commission's expenditures for the year ended December 31, 2007 increased by approximately \$3.8 million from the previous year. The increase is primarily a result of increased primary and local routine maintenance and state maintenance that occurred during the year ended December 31, 2007.

Monroe County Road Commission

Management's Discussion and Analysis (Continued)

A comparative analysis of the Road Commission data is presented below:

Condensed Statement of Net Assets

	Governmental Activities	
	December 31	
	2007	2006
Assets		
Current and other assets	\$ 7,871,956	\$ 9,654,956
Capital assets	<u>104,297,642</u>	<u>99,715,257</u>
Total assets	112,169,598	109,370,213
Liabilities		
Long-term liabilities	6,524,627	6,485,883
Other liabilities	<u>3,067,545</u>	<u>3,227,794</u>
Total liabilities	<u>9,592,172</u>	<u>9,713,677</u>
Net Assets		
Invested in capital assets - Net of related debt	98,164,732	93,756,882
Unrestricted	<u>4,412,694</u>	<u>5,899,654</u>
Total net assets	<u>\$ 102,577,426</u>	<u>\$ 99,656,536</u>

Monroe County Road Commission

Management's Discussion and Analysis (Continued)

Condensed Statement of Activities

	Governmental Activities	
	Year Ended December 31	
	2007	2006
Revenue		
State aid	\$ 10,212,688	\$ 10,264,353
Federal and state sources	5,241,321	2,251,612
Local and other sources	9,339,299	10,132,313
Total revenue	24,793,308	22,648,278
Expenses		
Maintenance	10,686,310	7,213,985
Administrative	1,860,622	1,857,946
Depreciation	9,082,264	8,710,438
Interest and other	243,222	273,545
Total expenses	21,872,418	18,055,914
Change in Net Assets	\$ 2,920,890	\$ 4,592,364

Road Fund Budgetary Highlights

The Road Commission amended its 2007 budget during the year to reflect changes in the level of funding from Michigan Transportation Fund revenues and status changes in budgeted projects. The final budget for revenue was \$400,000 higher than the original budget primarily due to an expected increase in state trunkline maintenance revenues. The final budget for expenditures was \$2.1 million higher than the original budget primarily due to an expected increase in the number of primary road, local road, and state maintenance projects and continued funding of retiree health care. The actual 2007 revenues were approximately \$3.7 million less than the amended budget due to less local funding and private donations of infrastructure. The actual 2007 expenditures were approximately \$2.5 million less than the amended budget due to a decrease in local road and heavy maintenance projects.

Capital Assets

The Road Commission had \$104,297,642 in capital assets at the end of the fiscal year. The reason for the \$4.6 million increase from the previous year is primarily due to an increase in infrastructure costs. Infrastructure costs continue to be the largest asset class.

Monroe County Road Commission

Management's Discussion and Analysis (Continued)

Capital Assets at Year End (Net of Depreciation) - Governmental Activities

	Governmental Activities	
	December 31	
	2007	2006
Land and land improvements	\$ 537,959	\$ 851,845
Buildings	2,132,714	2,277,959
Equipment and storage	2,107,171	2,439,804
Infrastructure - Including land improvements	99,519,798	94,145,649
Totals	<u>\$ 104,297,642</u>	<u>\$ 99,715,257</u>

Debt Administration

At December 31, 2007 and 2006, the Road Commission had \$6,184,855 and \$6,425,627, respectively, in outstanding notes payable.

Other long-term obligations include accrued vacation pay, as well as reserves for workers' compensation losses and other postemployment obligations. More detailed information about the Road Commission's long-term liabilities is presented in Note 7 of the financial statements.

Economic Factors and Next Year's Budget

The general economic activity diminished during 2007, which resulted in Michigan Transportation Fund (MTF) revenues decreasing compared to 2006 receipts. The Road Commission has received contradictory reports regarding the MTF funding available in 2008 and has chosen to use a flat projection. The actual 2008 revenues and expenditures will be monitored on a quarterly basis in order to obtain a balanced budget.

Overall, the 2008 budget includes a decrease of expenditures compared to 2007, primarily due to an expected decrease in construction and heavy maintenance projects from 2007 to 2008.

Revenues are expected to decrease in 2008 primarily due to a decrease in Township contributions and a decrease in Michigan Transportation Fund (MTF) revenues.

Contacting the Road Commission Management

This financial report is designed to provide a general overview of the Road Commission's finances and to show accountability for the money it receives and expends. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Monroe County Road Commission, 840 S. Telegraph Road, Monroe, MI 48161.

Monroe County Road Commission

Governmental Fund Balance Sheet/Statement of Net Assets December 31, 2007

	Major Fund - Road Fund	Adjustments (Note 2)	Statement of Net Assets
Assets			
Cash and investments (Note 3)	\$ 612,447	\$ -	\$ 612,447
Land held for resale (Note 5)	310,000	-	310,000
Receivables:			
Accounts (Note 1)	6,127,618	-	6,127,618
Special assessments	50,331	-	50,331
Inventory	595,252	-	595,252
Restricted assets (Note 4)	51,945	-	51,945
Prepaid items and other	124,363	-	124,363
Capital assets - Net (Note 5):			
Assets being depreciated	-	89,436,916	89,436,916
Assets not being depreciated	-	14,860,726	14,860,726
Total assets	<u>\$ 7,871,956</u>	104,297,642	112,169,598
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 290,609	-	290,609
Retainage payable	38,386	-	38,386
Advances (Note 1)	1,121,402	-	1,121,402
Accrued liabilities	149,821	73,173	222,994
Deferred revenue (Note 1)	3,840,698	(3,840,698)	-
Bonds and contracts payable, due within one year (Note 7)	-	1,394,154	1,394,154
Bonds and contracts payable, due in more than one year (Note 7)	-	4,790,701	4,790,701
Other long-term liabilities (Notes 6 and 7)	-	1,733,926	1,733,926
Total liabilities	5,440,916	4,151,256	9,592,172
Fund Balances			
Reserved:			
Inventory	595,252	(595,252)	-
Prepaid items	124,363	(124,363)	-
Unspent bond proceeds	51,945	(51,945)	-
Unreserved and designated - State audit adjustment	181,594	(181,594)	-
Unreserved and undesignated	1,477,886	(1,477,886)	-
Total fund balances	2,431,040	(2,431,040)	-
Total liabilities and fund balances	<u>\$ 7,871,956</u>		
Net Assets			
Investments in capital assets - Net of related debt		98,164,732	98,164,732
Unrestricted		4,412,694	4,412,694
Total net assets		<u>\$ 102,577,426</u>	<u>\$ 102,577,426</u>

Monroe County Road Commission

Statement of Governmental Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended December 31, 2007

	Major Fund - Road Fund	Adjustments (Note 2)	Statement of Activities
Revenue			
State aid - Michigan Transportation Fund	\$ 10,212,688	\$ -	\$ 10,212,688
State trunkline maintenance	2,928,578	-	2,928,578
Federal and state sources	5,241,321	-	5,241,321
Revenue from local governments	5,806,585	(452,596)	5,353,989
Interest, fees, and other revenue	1,087,999	(31,267)	1,056,732
Total revenue	25,277,171	(483,863)	24,793,308
Expenditures/Expenses			
Current:			
Primary construction/Heavy maintenance	9,126,252	(9,053,904)	72,348
Local construction/Heavy maintenance	4,501,167	(4,448,871)	52,296
Primary routine maintenance	3,347,526	124,504	3,472,030
Local routine maintenance	4,848,184	127,482	4,975,666
State maintenance	2,953,728	295,255	3,248,983
Equipment and capital outlay	47,551	(47,551)	-
Less equipment rental and other charged to other expenditures	(1,652,319)	100,072	(1,552,247)
Administrative	1,705,432	155,190	1,860,622
Other services	397,078	15,935	413,013
Depreciation expense	-	9,082,264	9,082,264
Loss on sale of asset	-	4,221	4,221
Debt service:			
Principal retirement	912,181	(912,181)	-
Interest and other charges	253,838	(10,616)	243,222
Total expenditures	26,440,618	(4,568,200)	21,872,418
Excess of Revenue Over (Under) Expenditures	(1,163,447)	4,084,337	2,920,890
Other Financing Sources - Proceeds from Township contract	489,815	(489,815)	-
Excess of Revenue and Other Financing Sources Over (Under) Expenditures	(673,632)	3,594,522	2,920,890
Fund Balances/Net Assets - January 1, 2007	3,104,672	96,551,864	99,656,536
Fund Balances/Net Assets - December 31, 2007	<u>\$ 2,431,040</u>	<u>\$ 100,146,386</u>	<u>\$ 102,577,426</u>

Monroe County Road Commission

Fiduciary Fund Statement of Net Assets December 31, 2007

	<u>Trust Fund</u>
Assets - Cash and investments	<u><u>\$ 198,694</u></u>
Net Assets - Reserved for retirement	<u><u>\$ 198,694</u></u>

Monroe County Road Commission

Fiduciary Fund Statement of Changes in Net Assets Year Ended December 31, 2007

	<u>Trust Fund</u>
Additions	
Contributions from employer	\$ 100,000
Net depreciation in fair value of investments	(2,167)
Interest income	<u>939</u>
Total additions	98,772
Deductions - Bank fees	<u>78</u>
Change in Net Assets	98,694
Net Assets - Beginning of year	<u>100,000</u>
Net Assets - End of year	<u><u>\$ 198,694</u></u>

Monroe County Road Commission

Notes to Financial Statements December 31, 2007

Note 1 - Significant Accounting Policies

The Monroe County Road Commission (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the road system in the County of Monroe, Michigan. The Road Commission's financial statements will be included in the basic financial statements of the County of Monroe, Michigan as a discretely presented component unit.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Basic Financial Statements - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided to report governmental funds, and have been separately stated in conjunction with the government-wide financial statements.

The major individual governmental fund has been reported as a separate column in the fund financial statements.

Additionally, the Trust Fund is reported as a fiduciary fund and is not included in the government-wide financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Monroe County Road Commission

Notes to Financial Statements December 31, 2007

Note 1 - Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

The Road Fund is the Road Commission's only major governmental fund. The Road Fund is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions. In addition, this fund is used to account for the construction and financing of public improvements provided in benefiting districts that are to be paid, at least in part, from an assessment against the benefited property.

Trust Fund - The Employees' Trust Fund accumulates resources for the payment of other postemployment benefits to qualified retirees or beneficiaries.

Cash and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices.

Accounts Receivable - Accounts receivable are amounts due primarily from other units of government. The Road Commission has not recorded a provision for doubtful accounts for accounts receivable since it is the opinion of management that those receivables are collectible in full.

Monroe County Road Commission

Notes to Financial Statements December 31, 2007

Note 1 - Significant Accounting Policies (Continued)

Advances and Deferred Revenue - Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of advances and deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Accounts receivable	\$ 3,790,367	\$ -
Special assessments receivable	50,331	-
Advances	<u>-</u>	<u>1,121,402</u>
Total	<u>\$ 3,840,698</u>	<u>\$ 1,121,402</u>

Inventory and Prepaid Items - Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at the lower of average cost or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Equipment	5 - 10 years
Infrastructure	8 - 50 years

Monroe County Road Commission

Notes to Financial Statements December 31, 2007

Note 1 - Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

New Accounting Standard - In the current year, the Road Commission implemented the Governmental Accounting Standards Board's Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of governments in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new pronouncement causes the government-wide financial statements to recognize the cost of providing retiree healthcare expenses over the working life of the employee, rather than at the time the healthcare expenses are paid.

Other accounting policies are disclosed in other notes to the financial statements.

Monroe County Road Commission

Notes to Financial Statements December 31, 2007

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

Governmental funds fund balance	\$ 2,431,040
Capital assets used in governmental activities are not financial resources and are not reported in the funds	104,297,642
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	50,331
Local and other receivables not collected within 60 days of year end are not available to pay for current year expenditures	3,790,367
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(6,184,855)
Compensated absences and net postemployment benefit obligations are not reported in the funds	(1,398,926)
Long-term provision for uninsured workers' compensation is not reported in the funds	(335,000)
Accrued interest payable is not reported in the funds	<u>(73,173)</u>
Government-wide net assets	<u>\$ 102,577,426</u>

Monroe County Road Commission

Notes to Financial Statements December 31, 2007

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net change in fund balances - Total governmental funds	\$ (673,632)
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	4,592,706
In the statement of activities, only the gain (loss) on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the net book value of the asset sold	(10,321)
Special assessment revenues are recorded in the statement of activities when the assessment is made; they are not reported in the funds until collected or collectible within 60 days of year end	(25,167)
Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	912,181
Proceeds from the issuance of debt are recorded as an other financing source in the governmental funds, but not in the statement of activities (where it increases long-term debt)	(489,815)
Changes in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	(11,587)
Interest expense is recorded in the statement of activities when a liability is incurred; they are reported in the funds only when payment is due	10,616
Changes in estimated workers' compensation claims are recorded when earned in the statement of activities	42,000
Future repayment of state audit liabilities is recorded as liability when incurred on the statement of net assets, but not in the governmental funds (where is it expensed when paid)	(181,594)
In the governmental funds, state and local revenues not collected within 60 days of year end are not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	(452,596)
In the statement of activities, other postemployment benefits are reported when incurred, whereas in the governmental funds, benefits are reported when paid	(791,901)
Change in net assets of governmental activities	<u>\$ 2,920,890</u>

Monroe County Road Commission

Notes to Financial Statements December 31, 2007

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Pension trust and other postemployment benefit funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Road Commission has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to custodial credit risk as follows:

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had \$979,804 of road fund bank deposits and \$1,966 of trust fund bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The book balance of these deposits has been reported on the Road Fund balance sheet/statement of net assets as cash of \$612,447 and restricted assets of \$51,945 and on the trust fund statement of net assets as cash and investments of \$101,966.

Monroe County Road Commission

Notes to Financial Statements December 31, 2007

Note 3 - Deposits and Investments (Continued)

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Restricted Assets

Restricted assets in the Road Fund at December 31, 2007 consist of cash and investments in the amount of \$51,945. These assets, representing unspent bond proceeds, are restricted for construction.

Note 5 - Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Transfers*	Ending Balance
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 746,812	\$ -	\$ -	\$ 310,000	\$ 436,812
Land improvements - Infrastructure	13,314,676	1,109,238	-	-	14,423,914
Subtotal	14,061,488	1,109,238	-	310,000	14,860,726
Capital assets being depreciated:					
Land improvements	175,032	950	-	-	175,982
Buildings	4,175,895	56,843	-	-	4,232,738
Equipment and storage	11,572,911	299,758	175,077	-	11,697,592
Infrastructure	154,622,713	12,518,181	-	-	167,140,894
Subtotal	170,546,551	12,875,732	175,077	-	183,247,206
Less accumulated depreciation for:					
Land improvements	(69,999)	(4,836)	-	-	(74,835)
Buildings	(1,897,936)	(202,088)	-	-	(2,100,024)
Equipment and storage	(9,133,107)	(622,070)	(164,756)	-	(9,590,421)
Infrastructure	(73,791,740)	(8,253,270)	-	-	(82,045,010)
Subtotal	(84,892,782)	(9,082,264)	(164,756)	-	(93,810,290)
Net capital assets being depreciated	85,653,769	3,793,468	10,321	-	89,436,916
Net capital assets	\$ 99,715,257	\$ 4,902,706	\$ 10,321	\$ 310,000	\$ 104,297,642

*Land that was bought in 2003 was put up for sale during the year. The land was reclassified out of capital assets and is now shown as land held for resale on the governmental fund balance sheet/statement of net assets.

Monroe County Road Commission

Notes to Financial Statements December 31, 2007

Note 6 - Risk Management and Other Long-term Liabilities

Insurance Programs

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for healthcare claims. The Road Commission also participates in the Michigan County Road Commission self-insurance pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past four fiscal years.

The Michigan County Road Commission self-insurance pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Road Commission is partially uninsured for workers' compensation claims. Under the plan, the Road Commission is liable for losses up to a limit per occurrence of \$1,000,000. The Road Commission has recorded a liability for estimated losses incurred up to the limit per occurrence (see Note 7).

Compensated Absences

The compensated absences liability represents the estimated liability to be paid to employees under the Road Commission's leave policies. Under the Road Commission's policy, all employees are eligible for paid leave in varying amounts based on time of service with the Road Commission. The Road Commission has recorded a liability for compensated absences as of December 31, 2007 (see Note 7).

Monroe County Road Commission

Notes to Financial Statements December 31, 2007

Note 7 - Long-term Debt

Outstanding Debt

The following is a summary of debt outstanding of the Road Commission as of December 31, 2007:

	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
Bonds and contracts:			
1999 Michigan Transportation Fund Bonds, Series 1999	4.60%-5.00%	2012	\$ 1,100,000
2002 Michigan Transportation Fund Notes, Series 2002	3.625%-4.00%	2012	1,750,000
2005 Michigan Transportation Fund Bonds, Series 2005	3.25%-3.85%	2017	1,950,000
2005 Michigan Transportation Fund Notes, Series 2005	3.80%	2010	450,000
Installment lease purchase agreements	4.00% - 8.00%	2008	263,446
Installment debt - State audits	0%	2009	181,594
Installment debt - Township contracts	0%	2010	<u>489,815</u>
Total bonded and other contractual indebtedness			6,184,855
Other long-term liabilities:			
Long-term portion of provision for workers' compensation losses			335,000
Other postemployment benefits obligation			791,901
Long-term portion of compensated absences liability			<u>607,025</u>
Total other long-term liabilities			<u>1,733,926</u>
Total long-term debt			<u>\$ 7,918,781</u>

The 1999 and 2005 Michigan Transportation Fund Bonds were issued by the County of Monroe, Michigan on behalf of the Road Commission. The Road Commission is a co-signer on these bond agreements and is solely responsible for the repayment of these bonds.

The 2002 and 2005 Michigan Transportation Fund Notes have been issued in accordance with the statutory requirements of Michigan Public Act 143 of 1943, as amended. The financing from these notes will be used to fund improvements on county highways.

The installment lease purchase agreements consist of multi-equipment obligations, including two Cat loaders, two Cat graders, and an asphalt trailer.

The state audit installment debt consists of amounts owed for previous audits of the state trunkline maintenance contracts.

Monroe County Road Commission

Notes to Financial Statements December 31, 2007

Note 7 - Long-term Debt (Continued)

The township contract installment debt consists of amounts owed on a construction project that was completed during the current year.

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended December 31, 2007:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
1999 Michigan Transportation Fund Bonds, Series 1999	\$ 1,290,000	\$ -	\$ 190,000	\$ 1,100,000	\$ 200,000
2002 Michigan Transportation Fund Notes, Series 2002	2,100,000	-	350,000	1,750,000	350,000
2005 Michigan Transportation Fund Notes, Series 2005	600,000	-	150,000	450,000	150,000
2005 Michigan Transportation Fund Bonds, Series 2005	2,100,000	-	150,000	1,950,000	150,000
Installment lease purchase agreements	335,627	-	72,181	263,446	263,446
Installment agreements - State audit	-	181,594	-	181,594	80,708
Installment agreements - Township	-	489,815	-	489,815	200,000
Other postemployment benefits obligation	-	791,901	-	791,901	-
Long-term portion of provision for workers' compensation losses	377,000	-	42,000	335,000	-
Long-term portion of compensated absences liability	595,438	11,587	-	607,025	-
Total long term-debt	<u>\$ 7,398,065</u>	<u>\$ 1,474,897</u>	<u>\$ 954,181</u>	<u>\$ 7,918,781</u>	<u>\$ 1,394,154</u>

Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of December 31, 2007, except liabilities for compensated absences, workers' compensation, and other postemployment benefits obligations, are as follows:

Fiscal Years Ending December 31	Principal	Interest	Total
2008	\$ 1,394,154	\$ 213,548	\$ 1,607,702
2009	1,160,886	170,483	1,331,369
2010	1,009,815	135,915	1,145,730
2011	780,000	98,575	878,575
2012	790,000	65,825	855,825
2013-2016	<u>1,050,000</u>	<u>122,025</u>	<u>1,172,025</u>
Total	<u>\$ 6,184,855</u>	<u>\$ 806,371</u>	<u>\$ 6,991,226</u>

Monroe County Road Commission

Notes to Financial Statements December 31, 2007

Note 7 - Long-term Debt (Continued)

Interest

Interest expense paid by the Road Commission for the year ended December 31, 2007 approximated \$253,000.

Note 8 - Stewardship, Compliance, and Accountability

The Road Commission is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by P.A. 493 of 2000:

- a. Budgets must be adopted for the Special Revenue Funds. The Road Fund is a Special Revenue Fund.
- b. Budgeted expenditures cannot exceed budgeted revenues and fund balance.
- c. The budgets must be amended when necessary.
- d. Public hearings must be held before budget adoptions.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget before being incurred.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the Road Fund budget as adopted by the Board of Road Commissioners is included in the required supplemental information.

The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In November, the managing director of the Road Commission submits to the Board of County Road Commissioners a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain citizen comments.
3. During December, the budget is legally enacted by the passage of a resolution.

Monroe County Road Commission

Notes to Financial Statements December 31, 2007

Note 8 - Stewardship, Compliance, and Accountability (Continued)

4. The managing director is authorized to transfer budgeted amounts between line items within an activity category, exclusive of certain exceptions, which require the approval of the Board of County Road Commissioners. These accepted items and any revisions that alter the total expenditures of any budgeted activity must be approved by the board.

Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that County appropriations were budgeted as other financing sources rather than revenue.

The unfavorable balance in primary routine maintenance, local routine maintenance, and state maintenance was due to more maintenance work performed throughout the year than originally anticipated. The unfavorable balance for principal retirement was caused by increased debt service requirements that were not reflected in the budget. The unfavorable balance in other services was due to more sundry materials and services being used than anticipated.

Note 9 - Other Postemployment Benefits

Plan Description

The Road Commission provides retiree health and life insurance benefits to all full-time employees, in accordance with labor contracts and personnel policy. Currently, 74 retirees and/or surviving spouses are eligible for health and life insurance benefits. Participants are required to contribute 3.1 percent of their compensation to the plan. There are currently 106 active members contributing to the plan. This is a single employer plan administered by the Road Commission. The plan does not issue a separate stand-alone financial statement.

Funding Policy

The Road Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the Road Commission has made contributions to advance-fund these benefits, as determined by the Board of Commissioners through annual budget resolutions. Administrative costs of the plan are paid for by the Road Fund.

Monroe County Road Commission

Notes to Financial Statements December 31, 2007

Note 9 - Other Postemployment Benefits (Continued)

Funding Progress

For the year ended December 31, 2007, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2006. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The Road Commission's computed contribution and actual funding are summarized as follows:

Annual required contribution/Annual OPEB cost	\$ 1,700,000
Amounts contributed:	
Payments of current premiums	808,099
Advance funding	<u>100,000</u>
Net OPEB obligation	791,901
OPEB obligation - Beginning of year	<u>-</u>
OPEB obligation - End of year	<u>\$ 791,901</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the fiscal year ended December 31, 2007 were as follows:

Annual OPEB costs	\$ 1,700,000
Percentage contributed	53.42%
Net OPEB obligation	\$ 791,901

The current funding progress of the plan as of December 31, 2006, the most recent valuation date, is as follows:

Actuarial value of assets	\$ 100,000
Actuarial accrued liability (AAL)	\$ 27,438,199
Unfunded AAL (UAAL)	\$ 27,338,199
Funded ratio	0.4%
Annual covered payroll	\$ 3,780,951
Ratio of UAAL to covered payroll	723%

Monroe County Road Commission

Notes to Financial Statements December 31, 2007

Note 9 - Other Postemployment Benefits (Continued)

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2006 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included an 5.0 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on plan assets, and a payroll growth rate of 4.0 percent. Both rates include a 4.0 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2005 was 30 years.

Note 10 - Defined Benefit Pension Plan

Plan Description - The Road Commission participates in the Monroe County Employees' Retirement System (MCERS), a single-employer defined benefit pension plan that covers nearly all employees of the Road Commission. MCERS provides retirement, disability, and death benefits to plan members and their beneficiaries. MCERS issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to Monroe County at 106 East First Street, Monroe, Michigan 48161.

Funding Policy - The obligation to contribute to and maintain MCERS for these employees was established by negotiation with the Road Commission's competitive bargaining units and personnel policy.

Monroe County Road Commission

Notes to Financial Statements December 31, 2007

Note 10 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended December 31, 2007, the Road Commission's annual pension cost of \$801,689 for the plan was equal to the Road Commission's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age normal cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 5.0 percent per year, and (c) no postretirement benefit increases. Both (a) and (b) include an inflation component of 4.0 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 20 years.

Additional pension plan information is as follows:

	Fiscal Years Ended December 31		
	2005	2006	2007
Annual pension cost (APC)	\$ 567,936	\$ 764,664	\$ 801,689
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Funding information through December 31, 2006, the date of the most recent actuarial valuation, is as follows:

	Actuarial Valuation as of December 31		
	2004	2005	2006
Actuarial value of assets	\$ 19,756,612	\$ 19,681,900	\$ 20,416,049
Actuarial accrued liability (AAL) (entry age)	\$ 21,944,097	\$ 23,206,408	\$ 23,927,617
Underfunded AAL (UAAL)	\$ 2,187,485	\$ 3,524,508	\$ 3,511,568
Funded ratio	90%	85%	85%
Covered payroll	\$ 5,004,436	\$ 5,012,641	\$ 4,832,158
UAAL as a percentage of covered payroll	44%	70%	73%

Note 11 - Construction in Progress

Estimated future contract cost obligations related to completion of Road Fund construction projects in progress at December 31, 2007, net of estimated revenue from federal aid and contributions from participating communities, total approximately \$505,000. The total remaining cost of these uncompleted projects will exceed the above estimated future contract costs due to inspection costs and other noncontracted services. It is anticipated that a significant portion of such additional costs will be shared with other governmental units and that the Road Commission's share of these costs will not be material in amount.

Required Supplemental Information

Monroe County Road Commission

Required Supplemental Information Budgetary Comparison Schedule - Road Fund Year Ended December 31, 2007

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
State aid - Michigan Transportation Fund	\$ 10,275,000	\$ 10,225,000	\$ 10,212,688	\$ (12,312)
State trunkline maintenance	2,297,440	2,835,000	2,928,578	93,578
Federal and state sources	5,969,006	5,537,866	5,241,321	(296,545)
Revenue from local governments	6,448,772	6,772,419	5,177,604	(1,594,815)
Interest, fees, and other revenue	2,932,692	2,949,603	1,087,999	(1,861,604)
Total revenue	27,922,910	28,319,888	24,648,190	(3,671,698)
Expenditures				
Current:				
Primary construction/heavy maintenance	9,369,474	9,234,136	9,126,252	107,884
Local construction/heavy maintenance	6,088,054	6,138,613	4,501,167	1,637,446
Primary routine maintenance	2,880,000	3,210,000	3,347,526	(137,526)
Local routine maintenance	3,790,000	4,683,892	4,848,184	(164,292)
State maintenance	2,468,035	2,845,000	2,953,728	(108,728)
Equipment and capital outlay - Net of depreciation credits	(950,000)	(1,100,000)	(1,604,768)	504,768
Administrative	1,710,000	2,370,000	1,705,432	664,568
Other services	315,000	369,304	397,078	(27,774)
Debt service:				
Principal retirement	795,000	840,000	912,181	(72,181)
Interest and other charges	417,000	372,000	253,838	118,162
Total expenditures	26,882,563	28,962,945	26,440,618	2,522,327
Excess of Revenue Over (Under) Expenditures	1,040,347	(643,057)	(1,792,428)	(1,149,371)
Other Financing Sources				
Proceeds from Township contract	-	-	489,815	489,815
County appropriation	-	-	628,981	628,981
Total other financing sources	-	-	1,118,796	1,118,796
Excess of Revenue and Other Financing Sources Over (Under) Expenditures	1,040,347	(643,057)	(673,632)	(30,575)
Fund Balance - January 1, 2007	3,104,672	3,104,672	3,104,672	-
Fund Balance - December 31, 2007	<u>\$ 4,145,019</u>	<u>\$ 2,461,615</u>	<u>\$ 2,431,040</u>	<u>\$ (30,575)</u>

Other Supplemental Information

Monroe County Road Commission

Other Supplemental Information Analysis of Changes in Road Fund Balance Year Ended December 31, 2007

	Primary Road	Local Road	County Road Commission	Total
Revenue				
State aid - Michigan Transportation Fund	\$ 7,019,867	\$ 3,192,821	\$ -	\$ 10,212,688
State trunkline maintenance	-	-	2,928,578	2,928,578
Federal and state sources	5,241,321	-	-	5,241,321
Revenue from local governments	1,373,480	3,761,687	42,437	5,177,604
Interest, fees, and other revenue	274,556	435,098	378,345	1,087,999
Total revenue	13,909,224	7,389,606	3,349,360	24,648,190
Expenditures				
Current:				
Primary construction/heavy maintenance	9,126,252	-	-	9,126,252
Local construction/heavy maintenance	-	4,501,167	-	4,501,167
Primary routine maintenance	3,347,526	-	-	3,347,526
Local routine maintenance	-	4,848,184	-	4,848,184
State maintenance	-	-	2,953,728	2,953,728
Equipment and capital outlay - Net of depreciation credits	(504,752)	(362,122)	(737,894)	(1,604,768)
Administrative	1,008,302	697,130	-	1,705,432
Other services	29,367	43,143	324,568	397,078
Debt service:				
Principal retirement	465,098	374,775	72,308	912,181
Interest and other charges	134,973	99,047	19,818	253,838
Total expenditures	13,606,766	10,201,324	2,632,528	26,440,618
Excess of Revenue Over (Under) Expenditures	302,458	(2,811,718)	716,832	(1,792,428)
Other Financing Sources (Uses)				
Proceeds from Township contract	489,815	-	-	489,815
Interfund transfers	(700,000)	2,000,000	(1,300,000)	-
County appropriation	-	628,981	-	628,981
Total other financing sources (uses)	(210,185)	2,628,981	(1,300,000)	1,118,796
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	92,273	(182,737)	(583,168)	(673,632)
Fund Balance - January 1, 2007	486,492	370,627	2,247,553	3,104,672
Fund Balance - December 31, 2007	<u>\$ 578,765</u>	<u>\$ 187,890</u>	<u>\$ 1,664,385</u>	<u>\$ 2,431,040</u>

Monroe County Road Commission

Report to the Board of Road Commissioners

December 31, 2007

To the Board of Road Commissioners
Monroe County Road Commission

We have recently completed our audit of the basic financial statements of the Monroe County Road Commission (the "Road Commission") for the year ended December 31, 2007. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, summary of unrecorded possible adjustments, recommendations, and informational comments which impact the Road Commission:

	<u>Page</u>
Report on Internal Control (SAS 112)	1-5
Required Audit Communication of Significant Findings (SAS 114)	6-10
Summaries of Unrecorded Possible Adjustments (Attachment to SAS 114 Letter)	11-12

We are grateful for the opportunity to be of service to the Monroe County Road Commission. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

April 7, 2008

April 7, 2008

To the Board of Road Commissioners
Monroe County Road Commission
840 S. Telegraph Road
Monroe, MI 48161

Dear Board Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Monroe County Road Commission's (the "Road Commission") financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these matters.

In planning and performing our audit of the financial statements of the Road Commission as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Road Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies:

A **control deficiency** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A **significant deficiency** is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls.

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

We consider the following significant deficiencies to be material weaknesses:

GASB 34 Adjustments - Infrastructure

During our review of infrastructure, we noted errors in the initial infrastructure spreadsheet prepared by the Road Commission. As a result of our auditing procedures, we proposed an audit adjustment to increase infrastructure additions by \$673,000 and increase depreciation expense by \$473,000. The Road Commission posted the proposed journal entry to the financial statements at December 31, 2007.

GASB 34 Adjustments - Workers' Compensation Liability

The Road Commission did not record the workers' compensation liability. As a result of our auditing procedures, we proposed an audit adjustment to record the liability of \$335,000. The Road Commission posted the proposed journal entry to the financial statements at December 31, 2007. We recommend the Road Commission implement procedures to record the workers' compensation liability on an annual basis.

OPEB Trust

In 2006, the Road Commission made a contribution to a VEBA trust fund to begin advance funding postemployment benefits. This activity was reported in a fiduciary fund of the Road Commission. During the current year, the Road Commission did not record the current year activity of this trust. As a result of our auditing procedures, we suggested that an audit adjustment be made to report the activity of the trust. The Road Commission posted a journal entry to the financial statements at December 31, 2007. We recommend the Road Commission begin reviewing and recording the activity in the general ledger system on a timely basis.

We consider the following control deficiencies to be significant deficiencies:

Land Held for Resale

The land that is being held for resale by the Road Commission was recorded as a capital asset instead of an investment. Generally accepted accounting principles require that land held for resale should be classified as an asset on the balance sheet. As a result of our auditing procedures, we proposed an audit adjustment to record the asset and reduce capital outlay expenditures by \$310,000. The Road Commission posted the proposed journal entry to the financial statements at December 31, 2007.

Deferred Revenue

During our testing of deferred revenue, we noted that there were errors in the initial deferred revenue adjustment provided by the Road Commission. As a result of our auditing procedures, we proposed an audit adjustment to decrease deferred revenue by \$126,000. The Road Commission posted the proposed journal entry to the financial statements at December 31, 2007.

Allowance for Doubtful Accounts

There are several old receivables recorded that date back to the 1990s. The allowance for doubtful accounts has not been recorded related to these receivables. We suggest that the accounts receivable aging report be reviewed on a monthly basis. During this review, the collectibility of accounts should be considered. An allowance for doubtful accounts should be recorded for all accounts which are expected to be uncollectible.

We noted the following control deficiencies that are not deemed to be significant:

Journal Entries

The finance director prepares and posts most journal entries with no evidence of supervisory review. In order to establish adequate internal controls, a supervisory review of all journal entries should be performed. We recommend designating an individual to perform a supervisory review of all journal entries posted.

Wire Transfers

During our review of internal controls, we noted opportunities for improvement in the wire transfer process. Currently, there are no reviews of the wire transfers initiated and approved by the finance director. We recommend designating an individual to perform a periodic supervisory review of wire transfers.

Reconciliation of Accounts Receivable

The balance in the accounts receivable subsidiary ledger did not agree to the accounts receivable balance recorded in the general ledger. While the unreconciled difference is immaterial, performing more timely reconciliations (i.e., monthly) would assist in identifying errors that may otherwise go undetected. We suggest that the general ledger balance and the accounts receivable subsidiary ledger be reconciled on a monthly basis. This will allow for more accurate and timely identification of errors.

Blank Check Stock

Currently, many of the employees in the finance department have access to the blank check stock. To improve controls over the disbursement process, we recommend that access to the blank checks be limited to only those individuals who need access in conjunction with their job duties.

Asset Impairment

During our review of internal controls, we noted that the Road Commission currently does not have procedures in place to detect impairment of assets. We recommend, at least annually, that the capital asset listing be reviewed for possible impairments.

Information Technology

During our review of the information technology (IT) system, we noted the following items:

- **Access Termination** - The human resources department does not immediately notify IT personnel when an employee has been terminated; however, the chief operating officer does notify IT appropriately. IT should immediately disable or remove the terminated individual's network and application access and maintain formal documentation of this process.

Management could consider formalizing the process with a termination form that documents the terminated user's name and termination date. The forms should be maintained by IT or human resources for the duration of the audit. In addition, IT should be confirming the last login date and time when account access is removed for terminated employees and verifying, through the event log, that no actions have taken place either prior to or immediately following their termination.

- **Segregation of Duties** - Certain Road Commission staff have the ability to use the administrative network account and are able to post financial transactions. We recommend management segregate individuals with administrative access from individuals having access to post transactions in the financial systems. This allows for proper segregation of duties and ensures that user access and accountability controls are not compromised. If it is necessary to allow a user to have access to both, then the activities should be logged and independently reviewed.

To the Board of Road Commissioners
Monroe County Road Commission

April 7, 2008

This communication is intended solely for the information and use of management, the Board of County Road Commissioners, and others within the Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script that reads "Mary F. Schafer".

Mary Schafer

A handwritten signature in cursive script that reads "Jenny L. Cederstrom".

Jenny L. Cederstrom

April 7, 2008

To the Board of Road Commissioners
Monroe County Road Commission

We have audited the financial statements of the Monroe County Road Commission (the "Road Commission") for the year ended December 31, 2007 and have issued our report thereon dated April 7, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 5, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal controls of the Monroe County Road Commission. Our consideration of internal controls was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on March 10, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Monroe County Road Commission are described in Note I to the financial statements.

As described in Note 1, during the current year, the Road Commission implemented the Governmental Accounting Standards Board's Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new pronouncement causes the government-wide financial statements to recognize the cost of providing retiree healthcare expenses over the working life of the employee, rather than at the time the healthcare expenses are paid.

The Road Commission did not enter into transactions during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedules summarize uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, there were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated April 7, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Road Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

Information Technology - During our review of the information technology (IT) system, we noted the following items:

- **New User Access** - An informal process exists where an email or verbal request from human resources or the supervisor is sent to IT to establish new user access. We recommend management consider formalizing the process with a paper or electronic "new user" access form, initiated by human resources or the supervisor. This form should document the user's name, department, access required, and start date and be retained for the duration of the user's employment. A formalized process reduces the risk of confusion when granting access to new users.
- **Access Changes** - An informal process exists where human resources or supervisors notify IT of employee job changes and access changes. We recommend management consider formalizing the process with a paper or electronic form that documents access changes and necessary approvals. This form should be maintained by IT or human resources for the duration of the user's employment. A formalized process will ensure that an employee's access is commensurate with the employee's job function and does not allow conflicting access.
- **User Access Review** - The Road Commission currently does not conduct user access reviews. We recommend management implement a process to review user access at least annually. This is best achieved when the review is performed by someone other than IT (as they administer access). Access reports should be provided by IT to each supervisor or human resources for review of access. Any exceptions should be clearly documented with IT remediation and retained for the duration of the audit.
- **Perimeter Controls** - The Road Commission currently reviews firewall logs on an as-needed basis. We recommend management consider formalizing the firewall log review process and reviewing all logs at least weekly. This will allow for early detection of any unusual activity or unauthorized attempts to access the network.

- **Authentication Controls - Network and Financial Applications** - We noted many of the authentication parameters used to control security on the network are not being enforced per best practice standards, such as minimum password length, enforced password complexity, number of unsuccessful login attempts, and inactivity time-outs. We recommend the following guidelines for authentication controls:
 - Minimum password length = 7 characters
 - Password complexity = Enforced
 - Unsuccessful login attempts = 3
 - Inactivity time-out = 15 minutes
- **Information Security Program** - The Road Commission does not have a formal written information security program or policy for users and third-party providers to sign and acknowledge. Management should consider developing an information security program to document and communicate the policies and procedures that end-users need to follow when using the organization's information systems. In addition, all users and third parties with access to the network should be required to sign and acknowledge that they have read and understand the program. This acknowledgement should be signed annually and retained in the employee's personnel file.
- **Environmental Controls** - In an effort to protect equipment in the computer room and maintain normal, efficient processing of servers and network devices, the following environmental controls should be considered:
 - Generators to maintain power for data centers in the event of a commercial power outage
 - Smoke detectors in the computer room

Management should include policies regarding virus update, physical security, logical security, password policies, incident response, disposal of hardware and software, and privacy of customer personal data in their information security program. A robust information security program allows for proper use of the Road Commission's IT resources.

Other Matters

Other accounting and procedural matters have been discussed with members of the Road Commission staff.

To the Board of Road Commissioners
Monroe County Road Commission

April 7, 2008

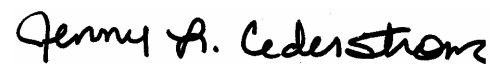
This information is intended solely for the use of the Board of Road Commissioners and management of the Monroe County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script that reads "Mary F. Schafer".

Mary Schafer

A handwritten signature in cursive script that reads "Jenny A. Cederstrom".

Jenny L. Cederstrom

Client: **Monroe County Road Commission**
 Opinion Unit: **Road Fund**
 Y/E: **12/31/2007**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Pretax Income
KNOWN MISSTATEMENTS:									
A1	To record expenditures for state audit payments recorded as a reduction of MTF revenue						\$ 21,506	\$ 21,506	
ESTIMATE ADJUSTMENTS:									
B1	To record reserve for current portion of workers' compensation claims			\$ 53,000				53,000	\$ (53,000)
B2	To record allowance for doubtful accounts for receivables > 365 days old at 12/31/2007 that were not collected as of 3/1/2008	\$ (232,000)		(232,000)					
IMPLIED ADJUSTMENTS:									
C1	None								
		-	\$ -	-	\$ -	\$ -	-	-	-
	Combined effect - Before income taxes	(232,000)	-	(179,000)	-	-	21,506	74,506	(53,000)
	Effect of income taxes	-	-	-	-	-	-	-	-
	Total	<u>\$ (232,000)</u>	<u>\$ -</u>	<u>\$ (179,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,506</u>	<u>\$ 74,506</u>	<u>\$ (53,000)</u>

Client: **Monroe County Road Commission**
 Opinion Unit: **Governmental Activities**
 Y/E: **12/31/2007**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Pretax Income
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A1	To record expenditures for state audit payments recorded as a reduction of MTF revenue						\$ 21,506	\$ 21,506	
ESTIMATE ADJUSTMENTS:									
B1	To record allowance for doubtful accounts for receivables > 365 days old at 12/31/2007 that were not collected as of 3/1/2008	\$ (232,000)						232,000	\$ (232,000)
IMPLIED ADJUSTMENTS:									
C1	None								
		-	\$ -	\$ -	\$ -	\$ -	-	-	-
	Combined effect - Before income taxes	(232,000)	-	-	-	-	21,506	253,506	(232,000)
	Effect of income taxes	-	-	-	-	-	-	-	-
	Total	<u>\$ (232,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,506</u>	<u>\$ 253,506</u>	<u>\$ (232,000)</u>